



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF LABOR & ECONOMIC GROWTH  
LANSING

ROBERT W. SWANSON  
DIRECTOR

## *Analysis of Senate Bill 640 (As Passed House)*

**Topic:** Individual or Family Development Accounts  
**Sponsor:** Senator Buzz Thomas  
**Co-Sponsors:**

**Committee:** Banking and Financial Institutions  
**Date Introduced:** June 23, 2005

**Date Passed Senate:** June 1, 2006  
**Date Passed House:** June 26, 2006  
**Date Enrolled:**  
**Date of Analysis:** August 1, 2006  
**Position:** Support

**Problem/Background:** Individual development accounts (IDAs) are a fairly recent innovation designed to create greater economic security, more options in life, and the ability to pass on status and opportunities for future generations of low income families. They use public and private funding matches for families who then also contribute personal savings to these accounts. The programs are also designed to provide education and other incentives to help participants complete the program successfully. What started as a private enterprise has been adopted by government with its goal being to expand “asset ownership” for the poor via partnerships with businesses, non-profit agencies and state government.

**Description of Bill:** The bill permits the establishment and maintenance of individual and family development accounts. An “account holder” would be a person who owns one of these accounts and must be at least 17 years of age when using the funds from an educational account or at least 18 years of age if using the account for capitalization of a business. The account holder must meet certain eligibility requirements, such as having an individual or family income that is less than or equal to 200% of the federal poverty level. Eligible individuals and families would have the opportunity to establish one of these accounts for education, first-time purchase of a primary residence, or for capitalization of a small business.

The program is established under the oversight of the Michigan State Housing Development Authority, which must establish policies and procedures for the program taking into consideration the policies and procedures adopted by the department of human services to implement the individual development account program under the social welfare act, 1939 PA 280.

The bill defines a “fiduciary organization” as a charitable organization exempt from taxation under section 510(c)(3) of the internal revenue code, and approved by the director of the Michigan State Housing Development Authority (MSHDA) within the Department of Labor and Economic Growth (DLEG), or other designee, to manage a reserve fund and which may also serve as a program site. “Program site” is defined as a charitable organization exempt from taxation under section 510(c)(3) of the internal revenue code, and approved by the director of MSHDA within the Department of Labor and Economic Growth (DLEG) to implement the individual or family development account program.

The bill provides for MSHDA to do the following:

1. Select program sites to administer the individual or family development accounts, and fiduciary organizations to provide technical assistance to program sites and establish and manage reserve accounts, based on specific criteria.
2. Work cooperatively with financial institutions, fiduciary organizations, program sites, and contributors to implement the programs.

The bills establishes several requirements for the program sites, including reviewing qualifications of an applicant, establishing appropriate accounts based upon criteria in the bill, and determining whether or not the program site has match funds available to meet match commitment in participant savings plan agreements.

To establish an account, the signature of both the account holder and a program site administrator for the withdrawal of money from an account are required. The account holder must name at least one contingent beneficiary at the time the account is established for the purposes transferring the account in the event of the account holder’s death. If the beneficiary is deceased, the money shall be transferred to his or her estate.

Also, a fiduciary organization is required, with cooperation of the participating financial institutions, to report the names of contributors and the total amount that each contributor contributes to an individual or family development account reserve fund for each calendar year to the agency. The director of DLEG is required to set a deadline by which this information must be submitted.

The bill also permits a contributor to deduct the amount of contributions made to accounts from the taxpayer’s tax base as determined under section 9 of the single business tax act of 1975 or section 272 of the income tax act of 1967, after applying for and receiving certification from MSHDA. The taxpayer may not submit credits for the same deduction under both options.

A taxpayer is required to attach certification from MSHDA to any return filed under the single business tax act or the income tax act, respectively, upon which an allowed credit is claimed. The bill limits the total amount of tax credits issued by the state to \$1,000,000, annually.

The bill requires a fiduciary organization selected to administer a program to provide the number of individual development accounts administered by the organization, the amount of deposits and matching deposits for each account, the purpose of each account, the number of withdrawals made, the number of terminated accounts and the reasons for termination, and any

other information MSHDA may require to MSHDA, which in turn must file a compiled report no later than December 31 of each year with the clerk of the House of Representatives and the Secretary of the Senate, along with copies of any changes in policies or procedures used to administer this act..

**Arguments For:**

- The bill establishes a program designed to provide much-needed economic assistance and education to lower income families who desire to save for education, purchase of a family home or to start a micro-business, which in turn should promote economic stability and asset accumulation for these families and individuals.
- MSHDA is familiar with this type of program and is supportive of the program. Over 34 states have some kind of IDA legislation.
- Past studies of earlier programs show that they successfully help families save money, and estimates show that for every federal dollar spent, \$5 are contributed to the greater community and the economy.
- There is a lack of savings options and education for low income families, which this program will provide.

**Arguments Against:**

- This program would require a tax expenditure and the benefits are not guaranteed.
- The programs are expensive to administer. Past studies have shown that it costs approximately \$64 per person per month in administrative costs in addition to the matching funds deposited in the accounts, although this number has been dropping as the programs expand through economies of scale.
- Prior studies do not support the hypothesis that the programs can increase assets for low income families, but they do provide much needed education and support.

**Supporters:**

MSHDA

Michigan Credit Union League

Community Economic Development Association of Michigan

**Opponents:** No opponents are known at this time.

**Fiscal/Economic Impact:**

a) **Department:** MSHDA believes that there will be little economic impact upon the department, as they have staff who can absorb the functions necessary to administer the program.

**Budgetary:**

**Revenue:** None.

b) **State of Michigan:** Tax expenditures for credits to the State Income Tax Act or the Single Business Tax Act would be approximately \$1,000,000 annually. Any benefits from increased tax payments through expenditures from the individual or family spending accounts would offset the credits.

**Other Pertinent Information:** This bill must be tie-barred to House Bills 5021 and 5022, which amend the single business Tax Act and the Income Tax Act, to allow for the credits created in this bill.

**Administrative Rules Impact:** MSHDA has permissive rule promulgation authority under the bill to develop rules to administer its provisions.